

Message Text

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ACTION ARA-14

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC 6834

C O N F I D E N T I A L LIMA 8415

E.O. 11652: GDS

TAGS: EAID PE

SUBJECT: P.L. 480, TITLE I

REF: STATE 195825

1. WE ARE SUBMITTING TODAY UNDER SEPARATE COVER OUR PL 480, TITLE I PROPOSAL IN RESPONSE TO STATE 195825. ALTHOUGH PERU'S INITIAL TITLE I ALLOCATION IS REPORTED TO BE ONLY \$5 MILLION, OUR PROPOSAL CALLS FOR A LEVEL OF \$20 MILLION. THE LARGER SUM IS NEEDED IF THE PROGRAM IS TO HAVE MORE THAN MINIMAL IMPACT. THE PROPOSAL REFLECTS MY VIEW THAT USG ASSISTANCE TO PERU AT THIS CRITICAL JUNCTURE SERVES IMPORTANT U.S. POLICY GOALS.

2. THE EMBASSY'S REPORTING OVER THE PAST SEVERAL MONTHS HAS DESCRIBED IN SOME DETAIL THIS COUNTRY'S ECONOMIC AND SOCIAL PLIGHT. PERU'S FINANCIAL CRISIS IS GENERALLY CATEGORIZED HERE AS THE WORST OF MODERN TIMES. THE GOP'S EFFORT TO MEET THAT CRISIS THROUGH A PROGRAM OF ECONOMIC AND FINANCIAL AUSTERITY HAS ALREADY TAKEN A HEAVY TOLL IN TERMS OF REDUCED REAL WAGES AND UNEMPLOYMENT. DESPITE THE RESULTING INSTABILITY, PRESIDENT MORALES BERMUDEZ HAS COMMITTED HIS GOVERNMENT TO ELECTIONS AND A RETURN TO DEMOCRACY BY 1980. THIS UNDETTAKING DEPENDS SIGNIFICANTLY ON A SUCCESSFUL STABILIZATION OF THE

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ECONOMY. ABSENT THAT INGREDIENT, PROSPECTS FOR THE ESTABLISHMENT OF A STABLE AND DURABLE DEMOCRATIC SYSTZK WOULD BE POOR. IN THE FACE OF THESE UNCERTAINTIES, THE PRESIDENT HAS NEVERTHELESS REINFORCED HIS COMMITMENT BY LIFTING THE STATE OF EMERGENCY, REINSTATING VARIOUS CONSTITUTIONAL RIGHTS WHICH WILL BE EXERCISED DURING WHAT PROMISES TO BE A HARSH AND VOLATILE PERIOD.

3. I DO NOT PROPOSE TO MAKE THE CASE HERE THAT A \$20 MILLION PL 480, TITLE I PROGRAM WILL SIGNIFICANTLY AFFECT PERU'S OVERALL ECONOMIC PROBLEMS, PARTICULARLY IN VIEW OF THE VERY SUBSTANTIAL BALANCE OF PAYMENTS SHORTFALL. SUCH A PROGRAM WOULD, HOWEVER, ADD MEANINGFULLY TO THE SUPPLY OF BASIC FOOD FOR CONSUMPTION AT A TIME WHEN THE SHORTAGE OF FOREIGN EXCHANGE THREATENS ADEQUATE FOOD IMPORTS. AND IT WOULD HAVE MAJOR IMPACT ON SUSTAINING REASONABLE LEVELS OF INVESTMENT AND EMPLOYMENT IN RURAL AREAS AS ANTICIPATED AUSTERITY MEASURES CONTINUE TO INDUCE MAJOR BUDGET CUTS IN THE AGRICULTURE SECTOR. OUR PRELIMINARY ESTIMATE IS THAT PL 480, LOCAL CURRENCY COULD AUGMENT THE TOTAL RESOURCES AVAILABLE FOR AGRICULTURAL DEVELOPMENT (CURRENT AND INVESTMENT EXPENDITURES) OF THE MINISTRIES OF FOOD AND AGRICULTURE BY AT LEAST 12 PERCENT IN 1978. IT WOULD INCREASE THE COMBINED INVESTMENT BUDGETS OF THESE TWO MINISTRIES BY ABOUT 30 PERCENT.

4. NEITHER CAN I MAKE THE CASE HERE THAT A PL 480, TITLE I PROGRAM IN PERU WILL IMPROVE MORE THAN marginally PRESIDENT MORALES BERMUDEZ' CHANCES OF IMPLEMENTING HIS TIMETABLE TO RETURN TO CIVILIAN RULE BY 1980. I DO BELIEVE, HOWEVER, THAT A TWO OR THREE YEAR TITLE I PROGRAM OF \$20 MILLION ANNUALLY WILL PROVIDE THE GOP A USEFUL TOOL WITH WHICH TO MEET CERTAIN BASIC REQUIREMENTS.

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MENTS OF THIS SOCIETY DURING THE PRESENT EMERGENCY. IT WILL PERMIT A RAPID FLOW OF ADDITIONAL RESOURCES INTO THE RURAL SECTOR AT A TIME WHEN SO MANY PROJECTS AND PROGRAMS BOTH OF THE GOVERNMENT ALONE AND THOSE INVOLVING OTHER DONOR ASSISTANCE, ARE AT A NEAR STANDSTILL DUE TO THE LACK OF COUNTERPART FINANCING AND/OR A LACK OF PERUVIAN IMPLEMENTORS AND MANAGERS RESULTING FROM CUTS IN THE OPERATING EXPENSE BUDGET. TITLE I ASSISTANCE CAN THUS HELP SUSTAIN PERU'S RURAL DEVELOPMENT MOMENTUM AS WELL AS RURAL EMPLOYMENT LEVELS. IT SHOULD BE NOTED THAT THROUGH ITS EIGHT YEAR PROGRAM OF AGRARIAN REFORM THE GOP HAS SHOWN UNIQUE SENSITIVITY TO THE PROBLEMS OF THE RURAL POOR. FINALLY, TITLE I FOOD WILL HELP PREVENT NUTRITIONAL DETERIORATION AMONG LOW-INCOME URBAN GROUPS THROUGH SOME SOFTENING EFFECTS ON PRICES, WITHOUT ADVERSELY AFFECTING LOCAL PRODUCTION.

5. OF MOST IMPORTANCE, AN ADEQUATE TITLE I PROGRAM WOULD IN MY VIEW DEMONSTRATE CLEARLY U.S. SUPPORT OF THIS GOVERNMENT'S EFFORTS TO SATISFY THE ECONOMIC NEEDS OF HUMAN RIGHTS ASPIRATIONS OF ITS PEOPLE DURING A MOST DIFFICULT PERIOD. PERU'S ATTEMPT TO MOVE FROM

MILITARY AUTHORITARIANISM TO CIVILIAN RULE WHILE MAINTAINING ITS BASIC SOCIAL REFORMS OF THE LAST EIGHT YEARS SEEMS TO ME TO HAVE MAJOR IMPLICATIONS FOR THE REST OF THE HEMISPHERE AND TO JUSTIFY A FORTHCOMING RESPONSE ON THE PART OF THE UNITED STATES.

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